

# Report of the auditor-general to the Limpopo provincial legislature and council on Fetakgomo Tubatse Local Municipality

## Qualified Opinion

1. I have audited the financial statements of the Fetakgomo Tubatse Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Fetakgomo Tubatse Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of General Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No.3 of 2017) (DoRA).

## Basis for opinion

### Property, Plant and Equipment

3. During 2017, the municipality did not account for certain assets in the assets register. The municipality's records did not enable me to establish the consequent understatement in the financial statements. I was unable to determine the extent of the adjustments required to property, plant and equipment stated at R2 330 588 363. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
4. The South African Standard of Generally Accepted Accounting Practice, GRAP 1 Presentation of financial statements defines assets as resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Included in the Property, Plant and equipment carrying amount of R2 330 588 363 in the financial statements is properties amounting to R52 429 678 for which the municipality does not have control over. Consequently, Property, Plant and equipment is overstated by R54 648 291 in the financial statements. Additionally, there was a resultant impact on the accumulated surplus in the financial statements.
5. I identified a difference on the restatement of the corresponding figure for Property plant and equipment. As described in note 4 to the financial statements, the restatement was made to rectify a previous year misstatement, however, the restatement resulted in a difference of R25 153 203 between the financial statements and the underlying records. Consequently, the restated corresponding figure of Property, plant and equipment stated at R2 330 588 363 is

understated by R25 153 203 in the financial statements. Additionally, there was a resultant impact on the accumulated surplus in the financial statements.

### **Investment Property**

6. During 2017, I identified property, plant and equipment assets to the value of R11 365 000 which were incorrectly classified as investment property. Consequently, property, plant and equipment was understated by R11 365 000 and investment property was overstated by R11 365 000. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
7. During 2017, the municipality included items investment property which do not meet the definition of an assets in accordance with *GRAP 1, Presentation of financial statements*. Consequently, investment property is overstated by R115 120 000 in the financial statements. Additionally, there was a resultant impact on the accumulated surplus in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
8. During 2017, I was unable to verify the reasonableness of the assumptions and inputs used by the municipality to determine the fair value adjustment of investment properties amounting to R23 129 000 in accordance with *GRAP 16, Investment property*. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R162 495 000 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
9. Included in the investment property balance of R 49 488 215 (2017: R 162 495 000) is an amount of R 30 682 215, which does not meet the definition of Investment Property, but rather of inventory in accordance with *GRAP 12, Inventory*. Consequently, investment property is overstated by an amount of R 30 682 215. There is a resultant impact on accumulated surplus. Due to the matter raised in the preceding paragraph on the values assigned to investment property, I was unable to determine the resultant understatement of inventory.

### **Irregular Expenditure**

10. The municipality did not include particulars of irregular expenditure in note 34 to the financial statements as required by section 125(2)d of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R86 153 390. The municipality did not have adequate systems in place to identify and report on all irregular expenditure incurred. I was not able to determine the full extent of the understatement irregular expenditure on the current year as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R191 408 404 in the financial statements.

## Commitments

11. I identified a number of contracts which were still effective as at 30 June 2018 that were not disclosed as commitments in the financial statements. Management did not implement adequate internal controls for identifying and recording capital and operational commitments. I was not able to determine the full extent of the understatement of commitments stated at R129 761 183 as it was impracticable to do so.

## Prior period errors

12. *GRAP 3 Accounting policies, Changes in Accounting Estimates and Errors* requires that an entity disclose for each prior period error corrected, the nature of the prior period error, for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period presented. The municipality corrected errors in the following financial statement line items, however they did not make the necessary disclosures in note 39 to the financial statements as required by GRAP 3:

- Property, plant and equipment stated at R2 222 689 504 in the prior year was restated to R2 373 790 930.
- Payables from exchange transactions stated at R74 352 009 in the prior year were restated to R68 394 016
- Cash and Cash equivalent stated at R208 340 741 in the prior year were restated to R204 146 844.

## Context for the opinion

13. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

14. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern/ financial sustainability

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.

17. I draw attention to note 42 to the financial statements, which indicates that the municipality incurred a net loss of R273 311 993 during the year ended 30 June 2018 due to material loss of investments in Venda Building Society (VBS) and, as of that date the municipality's current liabilities exceeded its current assets by R133 854 040. As stated in note 42, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### [Restatement of corresponding figures](#)

19. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statement of the municipality at, and for the year ended 30 June 2018.

### [Significant uncertainties](#)

20. With reference to note 37 of the financial statements, the municipality is currently involved in litigation with various service providers, employees and third parties. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### [Material losses and impairments](#)

21. As disclosed in note 47 to the financial statements, material losses of R63 882 656 were incurred as a result of impairment and a write-off of irrecoverable consumer debtors.

## **Other matters**

22. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### [Unaudited supplementary schedules](#)

23. The supplementary schedules set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### [Unaudited disclosure notes](#)

24. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of MFMA and the DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

26. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

27. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
28. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

29. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
30. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Local Municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
31. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Development Priorities</b>	<b>Pages in the annual performance report</b>
KPA 1: Spatial Rational	31 – 75
KPA 3: Basic Service Delivery and Infrastructure Development	106 - 187
KPA 4: Local Economic Development	188 - 219

32. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

33. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### **Development priority 01 – Spatial Rational**

##### **Reported achievement not supported by sufficient and appropriate audit evidence**

###### **Turnaround time in approving Building Plans from date submitted**

34. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicator listed below. The supporting evidence provided indicated that the achievements of the indicator was as follows:

Indicator description	Planned performance target	Reported Achievement	Audited value
Turnaround time in approving building plans from date submitted	30 days (plans $\leq$ 500m $^2$ )	81 plans less than 500m $^2$ received and 38 plans approved within 30 days	81 plans less than 500m $^2$ received and 40 plans approved within 30 days  Building plans were identified approved but not included in the reported achievement  Comparison of building plan files and building plan register discrepancies were identified in recording of date plans were received and date approved.
	60 days (plans $>$ 500m $^2$ )	27 plans greater than 500m $^2$ received and 13 plans approved within 60 days	22 plans greater than 500m $^2$ received and 12 plans approved within 60 days

#### **Development priority 03 – Basic Service Delivery and Infrastructure Development**

##### **Number of households receiving FBE**

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of households receiving FBE for the set target of 8 484 households. This was due to limitations placed on the scope of my work, as the municipality does not have an adequate performance management system to maintain records to enable reliable reporting on the achievement of targets. I was unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievement 8 496 as reported in the annual performance report.

##### **Various Indicators**

36. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and process that enable reliable reporting of actual achievement against the indicators listed below.
37. In addition, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets listed below. This was due to limitation placed on the scope of my

work, as the municipality not keeping a register for routine maintenance. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements of targets as reported in the annual performance report.

Performance indicator	Planned performance target	Reported performance achievement
Rural roads regravelled in the municipality	16 Rural roads regravelled in the municipality	36 Municipal roads regravelled
Turnaround time in fixing potholes from the identified date	15 working days	Potholes are fixed within 12 days
Turnaround time in fixing traffic lights from the date observed	15 days Turnaround time in fixing traffic lights from the date observed	Traffic lights are fixed with 15 days from the faults are reported.
# of municipal roads rehabilitated	6 municipal roads rehabilitated	36 municipal roads rehabilitated

## Development priority 04 – Local Economic Development

### Various Indicators

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets listed below. This was due to limitation placed on the scope of my work, as the municipality not keeping a register for routine maintenance. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements of targets as reported in the annual performance report.

Performance indicator	Planned performance target	Reported performance achievement
Number of agricultural cooperatives assisted with market linkages	10 Agricultural Cooperatives assisted with market linkages	14 Agric co-ops assisted with market linkage
Number of job opportunities created through municipal supported initiatives	500 job opportunities created through Municipal supported initiatives	2702 Job created in the municipality

### Various indicators

39. The source information and method of calculation for the achievement of the planned indicators below were not clearly defined for the under listed indicators.

Performance indicator	Planned performance target
Number of initiatives towards establishment of Fetakgomo Greater Tubatse Information Centre conducted	4 initiatives towards establishment of Fetakgomo Greater Tubatse Information Centre
Number of initiatives towards establishment of Local Business' Advisory centres	02 initiatives towards establishment of Local Business' Advisory Centres (Burgersfort and Apel Areas
Number of initiatives generated towards support to the SEZ Programme	04 initiatives generated towards support to the SEZ Programme

### Other matters:

40. I draw attention to the matters below:

## Achievement of planned targets

41. Refer to the annual performance report on pages x to x; for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraphs [x; x; x] of this report.

## Adjustment of material misstatements

42. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 01: Spatial Rational, KPA 03: Basic Service Delivery and Infrastructure Development and KPA 04: Local Economic Development. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

43. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
44. The material findings on compliance with specific matters in key legislations are as follows:

### Financial statements, performance and annual reports

45. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### Procurement and Contract Management

46. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
47. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.
48. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a). This non-compliance was identified in the procurement processes for the appointment of a service provider for the extension and refurbishment of Praktiseer testing station.

49. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the appointment of a service provider for the decommissioning of the existing Burgersfort landfill site.
50. Some of the contracts were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bidding, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2). This non-compliance was identified in the procurement processes for the appointment of service providers to provide security services for the Fetakgomo Greater Tubatse Municipality at the identified municipal offices for a period of 24 months.
51. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the compilation of the municipal valuation roll.
52. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

## Expenditure Management

53. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
54. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R300 893 769, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by contravention of municipal investment regulation 6. Unauthorised expenditure amounting to R243 256 998 was incurred on impairment of VBS investments.
55. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by contravention of the supply chain management requirements
56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R10 546 734, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Fruitless and wasteful expenditure amounting to R8 759 298 was incurred on late payment to suppliers.

## Asset Management

57. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
58. Investments were not made in accordance with the requirements of the investment policy as the municipality made an investment with Venda Building Society (VBS), which is not registered in terms of the Banks Act, as required by municipal investment regulation 3(3).

59. Funds were invested in (VBS) mutual bank, in contravention of municipal investment regulation 6.

#### Revenue Management

60. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### Conditional grants

61. The Intergrated National Electrification Programme (INEP) was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 3 of 2017).

#### Consequence Management

62. Unauthorised expenditure for prior year amounting to R3 221 843 incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

63. Irregular expenditure for prior year amounting to R114 103 302 incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and reporting regulations 75(1).

64. Fruitless and wasteful expenditure for prior year amounting to R8 759 298 incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and reporting regulations 75(1).

#### Other information

65. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

66. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

67. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

68. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

## Internal control deficiencies

69. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
70. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.
71. There was no adequate monitoring and implementation of policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA.
72. The municipality did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.
73. The basic accounting principles of daily and monthly accounting and reconciling have not been implemented.
74. Supply chain management processes were inadequate resulting in irregular expenditure.
75. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
76. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks, are conducted and that a risk strategy to address the risks are monitored.
77. The internal control monitoring mechanisms of the audit committee and the internal audit are not functioning optimally, as many control weaknesses are only detected during the audit of the financial statements and performance information.

*Auditor General*

Polokwane

30 November 2018



*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.